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LEWISHAM STATEMENT OF ACCOUNTS 2012/13

Pension Fund Accounts

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PENSION
FUND
ACCOUNTS**

2012/13

Pension Fund Accounts

PENSION FUND ACCOUNTS

FOREWORD

This Pension Fund Statement of Accounts details the financial position and performance of the Lewisham Pension Fund for the year 2012/13.

The Pension Fund's value rose over the year by approximately £90m which is mainly due to an increase in stock valuation during the year.

The Fund underwent a major transition this year in moving from active management to passive management, with 78% of the fund being transitioned. This resulted in a change of some investment managers. RCM, Alliance Bernstein and UBS (active) were replaced by Blackrock and UBS (passive). The Fund also disinvested from the hedge fund of funds held with Fauchier Partners. The Pensions Investment Committee decided on this change in strategy due to the unsatisfactory performance of these managers. All resulting effects have been accounted for in these accounts.

INTRODUCTION

The London Borough of Lewisham Pension Fund ('the Fund') is part of the Local Government Pension Scheme. The Fund is a contributory defined pension scheme administered by the London Borough of Lewisham to provide benefits to London Borough of Lewisham employees and former employees and admitted and scheduled bodies. These benefits include retirement allowances and pensions payable to former employees and their dependants, lump sum death gratuities and special short-term pensions. The Fund is financed by income from investments and contributions from employees, the Council and other admitted and scheduled bodies.

ORGANISATION

The fund is governed by the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- The Local Government Pension Scheme (Administration) Regulations 2008 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

Formal responsibility for investment management of the Pension Fund is delegated to the Council's Pensions Investment Committee (PIC), which monitors the external investment managers. Each investment manager has an individual performance target and benchmark tailored to balance the risk and return appropriate to the Fund. The investment managers also have to consider the PIC's views on socially responsible investments. Details of this policy are contained in the Statement of Investment Principles (see web address below).

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A statement of the Fund's corporate governance, funding strategy and investment principles can be found on the authority's website, at the following address:

<http://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/finances/Pages/Pension-fund.aspx>

ACCOUNTING POLICIES

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of the obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in paragraph (m) below.

The Local Government Pension Scheme (Amendment) (No. 3) Regulations 2007 also requires administering authorities in England and Wales to prepare a Pension Fund Annual Report which must include the Fund Account and a Net Assets Statement with supporting notes prepared in accordance with proper practices. The Code summarises the Pension Code and the minimum disclosure requirements.

The date for publishing the Pension Fund Annual Report is on or before 1 December the following year, up to five months after a local authority must approve its Statement of Accounts. The Council will be taking its Annual Report to its Pensions Investment Committee in order to comply with this deadline.

A summary of the significant accounting policies and the basis of preparation of the accounts are shown below:

- (a) **Basis of Preparation** - The accounts have been prepared on an accruals basis, i.e. income and expenditure attributable to the financial year have been included, even where payment has not actually been made or received, excepting Transfer Values which are prepared on a cash basis. The financial statements do not take account of liabilities to pay pensions and other benefits due after the period end; these are reported upon separately in the Actuary's report and reflected in the council's income and expenditure account. The accounts are prepared on a going concern basis for accounting purposes.
- (b) **Investments** - Investments in the Net Assets Statement are shown at market value based on bid prices, as required by the 2012/13 Local Authority Code of Practice and the IAS 26 Retirement Benefit Plans. The market value of equity investments is based on the official closing data, in the main, with last trade data being used in a small number of countries. Unitised equities are quoted based on last trade or official closing price. Northern Trust, the Fund's custodian, sets out its pricing policies in a document entitled "Asset pricing guidelines" which details its pricing process and sets out preferred pricing sources and price types.

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- (c) The change in market value of investments during the year comprises all increases and decreases in market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.
- (d) Private equity investments are valued in accordance with United States generally accepted accounting principles, including FAS 157, which is consistent with the International Private Equity and Venture Capital Valuation Guidelines. These guidelines set out that all investments are carried at fair value and they recommend methodologies for measurement. Due to timing differences in the valuation of this private equity investment, the value carried in the accounts as at 31st March 2013 is the actual fair value as at 31st December 2012 plus an estimated valuation for the period 1st January 2013 to 31st March 2013.
- (e) Property – The Fund does not have any direct investments in property, but does use a property Fund of Funds manager, Schroders, to invest in pooled property funds. The Schroders funds are all currently valued at least quarterly. The majority of property assets to which the fund has exposure to are located in the UK. They are valued in accordance with the Royal Institution of Chartered Surveyors' Valuation Standards and are valued on the basis of their open market value (OMV).

The only non UK funds are the Continental European Fund 1 and Lend Lease Real Estate Partners 3. Their net asset values are derived from the net asset values of the underlying funds. Like the UK, the values of the underlying assets are assessed by professionally qualified valuers. Valuation practices will vary between countries according to local Generally Accepted Accounting Practices. The frequency of independent valuations does however vary. All the funds are independently valued on a rolling basis at least annually.

- (f) The fair value of the M&G financial instruments is based on their quoted market prices at the statement of financial position date without any deduction for estimated future selling costs. Due to timing differences in the valuation of this investment, the value carried in the accounts as at 31st March 2013 is the actual fair value as at 31st December 2012, plus an estimated valuation for the period 1st January 2013 to 31st March 2013.
- (g) The fair value of the Investec commodities is based on their quoted market prices at the Balance Sheet date. If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for a non-exchange traded financial instrument, the fair value of the instrument is estimated using valuation techniques.
- (h) Contributions – These represent the total amounts receivable from employers within the scheme in respect of their own contributions and any of their employees contributions who are members of the scheme. There are seven employee contribution bands (revised annually in line with inflation) ranging from 5.5% for members earning under £13,500 a year to 7.5% for members earning over £85,300 a year.

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Full time pay for the post	Contribution rate
Up to £13,500	5.5%
£13,501 to £15,800	5.8%
£15,801 to £20,400	5.9%
£20,401 to £34,000	6.5%
£34,001 to £45,500	6.8%
£45,501 to £85,300	7.2%
More than £85,300	7.5%

The employer's contribution is reviewed every three years and is determined by the fund's Actuary as the rate necessary to ensure that the Fund is able to meet its long-term liabilities. This is assessed at each triennial actuarial revaluation.

- (i) Benefits -Benefits payable are made up of pension payments and lump sums payable upon retirement and death. These have been brought into the accounts on the basis of all valid claims approved during the year.
- (j) Transfer Values – Transfer values are those sums paid to, or received from, other pension schemes relating to periods of previous pensionable employment. Transfer values are calculated in accordance with the Local Government Pension Scheme Regulations and have been brought into the accounts on a cash basis.
- (k) Taxation – The fund is a registered public service scheme under section (1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as an expense as it arises.
- (l) VAT – By virtue of Lewisham Council being the administering authority, VAT input tax is recoverable on fund activities. Any irrecoverable VAT is accounted for as an expense.
- (m) Actuarial – The adequacy of the Fund's investments and contributions in relation to its overall and future obligations is reviewed every three years by an Actuary appointed by the Council. The council's Actuary, Hymans Robertson, assesses the Fund's assets and liabilities in accordance with Regulation 77 of the Local Government Scheme Regulations 1997. The contribution rate required for benefits accruing in future is assessed by considering the benefits which accrue over the course of the three years to the next valuation.

The most recent actuarial valuation carried out under Regulation 36 of the LGPS (Administration) Regulations 2008 was as at 31 March 2010.

The valuation was based on the projected unit valuation method. This assesses the cost of benefits accruing to existing members during the year following valuation and allowing for future salary increases. The resulting contribution rate

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is adjusted to allow for any difference in the value of accrued liabilities (allowing for future salary increases) and the market value of assets.

In order to value liabilities which have accrued at the valuation date and those accruing in respect of future service the Actuary has assumed that the Fund's assets will generate a return of 6.1% per annum (5.8% 2007). The Actuary set the employer contribution accordingly to recover the deficit over future periods.

Other financial assumptions made include:

Financial assumption	Funding Basis (%pa)	Gilt Basis (%pa)
Discount Rate	6.1	4.5
Price Inflation	3.3	3.3
Pay Increases	5.3	5.3
Pension Increase:		
Pension in excess of GMP	3.3	3.3
Post -88 GMP	2.8	2.8
Pre-88 GMP	0.0	0.0
Revaluation of Deferred Pension	3.3	3.3
Expenses	0.6	0.6

The actuarial review carried out for 31 March 2010 resulted in an increase to the Council's contribution rate from 20% to 20.5%, with effect from 1st April 2011 and annual increases of 0.5% for the subsequent two years. The next actuarial valuation of the Fund will have an effective date of 1 April 2013, with new employer contribution rates taking effect from 2014/15.

The triennial valuation on the 31st March 2010 revealed that the Fund's assets, which at 31 March 2010 were valued at £715 million, were sufficient to meet 75.4% (87.4% 2007) of the liabilities valued at £949 million (£840 million 2007) accrued up to that date. The resulting deficit at the 2010 valuation was £234 million (£106 million 2007).

Actuarial Present Value of Promised Retirement Benefits

The Actuary has calculated the actuarial present value of retirement benefits (on an IAS 26 basis) to be £1,353 million as at 31st March 2013 (£1,158 million 31st March 2012).

- (n) Investment Management and Administration - paragraph 42 of the Local Government Pension Scheme (Administration) Regulations 2008, permit the Council to charge the scheme's administration costs to the Fund. A proportion of relevant Council officers' salaries, including related on-costs, have been charged to the Fund on the basis of actual time spent on scheme administration and investment-related business. The fees of the Fund's general investment managers are charged on a quarterly basis and are generally calculated as a set percentage of the market value funds under management as at the end of those quarters. The Council's administrative costs are shown in the Fund Account as part of expenditure.

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- (o) Foreign currency transactions are made using the WM/ Reuters exchange rate in the following circumstances:
- Purchase and sales: the foreign exchange rate applicable on the day prior to the trade date is used.
 - Stock holdings: the converted foreign exchange rate is used at stock valuation date.
 - Dividend receipts: the rate applicable on the day prior to the date the dividend is received is used.
- (p) 2012/13 Financial Year Summary of the Fund's Market Value

Fund Manager	Assets	Assets Value 2012/13 £000	Assets Value 2011/12 £000	Proportion of the Fund 2012/13 (%)
UBS	Bonds	0	138,140	0%
Alliance Bernstein	Global Equities	0	165,816	0%
RCM	Global Equities incl.UK	0	171,254	0%
Schroders Property	Property	69,598	68,846	8%
HarbourVest (*Incl Legacy Stock)	Private Equity	37,515	33,163	4%
UBS	UK Tracker fund	0	128,474	0%
UBS	Passive Equity and Bonds	340,486	0	39%
Fauchier	Hedge Fund of Funds	0	21,077	0%
Blackrock	Passive Equity and Bonds	338,769	0	39%
Investec	Commodities	37,889	37,587	4%
M&G	Credit	13,411	11,089	2%
Securities Lending	Securities Lending	88	8	0%
Unallocated Funds	Cash	29,836	0	3%
Lewisham	Cash and Net Current Assets	-43	2,010	0%
Total Fund		£867,549	£777,464	100%

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FUND ACCOUNT FOR THE YEAR

The fund account shows the surplus or deficit on the fund for the year.

2011/12	FUND ACCOUNT FOR THE YEAR ENDED 31st MARCH 2013	2012/13	Note
£'000s	<u>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS</u> <u>DIRECTLY INVOLVED WITH THE SCHEME</u>	£000s	
	Contributions Receivable:		
26,992	- from Employer	26,934	1
8,979	- from Employees	8,612	1
1,951	- Reimbursement for Early Retirement	308	
2,896	Transfer Values In	3,083	
8	Other Income	10	
40,826	Sub-Total: Income	38,948	
	Benefits Payable:		
30,038	- Pensions	32,857	2
8,826	- Lump Sums: Retirement allowances	5,413	
1,170	- Lump Sums: Death grants	1,249	
	Payments to and on account of leavers:		
1	- Refunds of Contributions	1	
6,059	- Transfer Values Out	2,376	
1,002	Administrative and other expenses borne by the scheme	774	3
47,096	Sub-Total: Expenses	42,670	
(6,270)	Total Net additions (withdrawals) from Dealings with Scheme Members	(3,722)	

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	<u>RETURNS ON INVESTMENTS</u>		
10,667	Investment Income	10,544	4
13,855	Change in market value of investments (Realised and Unrealised)	85,404	5
	Investment Expenses:		
(3,045)	- Investment Management Fees*	(1,677)	6
(537)	- Tax on Dividends	(464)	
20,940	Total Net Returns on Investments	93,807	
14,670	NET INCREASE / (DECREASE) IN THE FUND DURING THE PERIOD	90,085	
762,794	OPENING NET ASSETS OF THE SCHEME	777,464	
777,464	CLOSING NET ASSETS OF THE SCHEME	867,549	

* The investment management fees do not include fees for two managers totalling £184k which have been deducted by the managers at source, and are reflected in the end value of each investment.

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NET ASSETS STATEMENT

The Net Assets Statement shows the market value of the investments and other assets held by the Pension Fund as at 31 March 2013.

31st March 2012 £'000s	<u>NET ASSETS STATEMENT AT 31 MARCH 2013</u>	31st March 2013 £000s	Note
	EQUITIES		5
43,745	Equities: UK	5,861	
269,466	Equities: Global	11,499	
313,211		17,360	
	MANAGED FUNDS		5
66,993	Property	68,794	
151,513	Equity	510,346	
88,581	Fixed Interest	130,160	
49,552	Index Linked	26,496	
98,435	Other Assets	80,290	
455,074		816,086	
6,196	CASH DEPOSITS	33,502	10
	DERIVATIVE CONTRACTS		8
4	Assets	0	
(21)	Liabilities	0	
	OTHER INVESTMENT BALANCES		9
2,164	Debtors: Investment Transactions	3,771	
(1,174)	Creditors: Investment Transactions	(3,127)	
775,454	TOTAL INVESTMENTS	867,592	
	NET CURRENT ASSETS AND LIABILITIES		
765	Debtors	590	9
(2,273)	Creditors	(1,777)	9
3,518	Cash in Hand	1,144	10
777,464	TOTAL NET ASSETS	867,549	

The financial statements of the fund do not take account of the liability to pay pensions or benefits after 31st March 2013. This liability is included within the Authority's balance sheet.

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NOTES TO THE PENSION FUND ACCOUNTS

1. CONTRIBUTIONS RECEIVABLE

<u>Employer Contributions</u>	2012/13 £000s	2011/12 £000s
Administering: Normal	22,313	22,752
Admitted: Normal	1,026	974
Scheduled	3,595	3,266
	26,934	26,992

<u>Employee Contributions</u>	2012/13 £000s	2011/12 £000s
Administering	7,102	7,449
Admitted	328	325
Scheduled	1,181	1,205
	8,611	8,979

<u>2. BENEFITS PAYABLE</u>	2012/13 £000s	2011/12 £000s
Administering	19,009	17,907
Admitted	224	192
Scheduled	946	730
Dependants' Pensions	1,259	1,226
Pensions Increases	11,418	9,983
	32,857	30,038

<u>3. ADMINISTRATION COSTS</u>	2012/13 £000s	2011/12 £000s
Lewisham Administration	645	547
Administrative Costs Incl. Audit Fees*	124	**452
Bank Charges	5	3
	774	1,002

*These costs include a net figure of £21k paid to Grant Thornton for external audit services in 2012/13. In 2011/12 £32.2k was paid to the Audit Commission for the same service.

**These costs include custodian and advisory fees in 2011/12

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4. INVESTMENT INCOME	2012/13 £000s	2011/12 £000s
Cash	175	212
Equity	5,459	7,846
Fixed Interest	915	0
Index Linked	30	0
Managed Funds Incl. Property	3,875	2,467
Securities Lending	89	141
Other*	1	1
	10,544	10,667

* Includes Commodities, Hedge Fund, Venture Capital and Credit Mandates

5. INVESTMENT ANALYSIS

Individual Investment assets with a market value exceeding 5% of the total fund value are:

Asset	Manager	2012/13 Value £000	2012/13 %
UBS GBL Asset Life North America Equity Tracker	UBS	97,683	12.0
Aquila Life US Equity Index Fund	Blackrock	97,671	12.0
Aquila Life UK Equity Index Fund	Blackrock	69,230	8.5
UBS Global Life UK Equity Tracker Fund	UBS	68,500	8.4

Investments exceeding 5% within each class of security are as follows:

Asset	Manager	2012/13 Value £000	2012/13 %
UK Equities			
Harbourvest GE PE Shares	Harbourvest	5,861	100
Global Equities			
Commonwealth Bank of Australia	UBS	673	5.8
BHP Billiton Ltd	UBS	652	5.7
Westpac BKG Corp	UBS	588	5.1
Property			
Standard Life Pooled property Fund	Schroder	8,271	11.8
Schroder Uk Prop.	Schroder	8,018	11.7
Real Continental European Fund	Schroder	6,183	9.0
Hermes Property UT	Schroder	5,944	8.6
Legal and General Property Fund	Schroder	5,927	8.6
Rockspring Hanover Property Unit Trust	Schroder	5,134	7.5
Blackrock UK Fund	Schroder	6,439	9.4

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Real Income Fund	Schroder	4,407	6.4
Hercules Unit Property	Schroder	3,755	5.5
Managed Equities			
Global AM Life Equity Tracker	UBS	29,243	5.7
UBS Global Life Nrth America	UBS	97,662	19.1
Life European Equity Index Fund	Blackrock	31,791	6.2
UBS Global Life UK Equity Tracker Fund		68,500	13.4
Blackrock AM EM IDX Fund	Blackrock	25,046	5.0
Life UK Equity Index Fund	Blackrock	69,599	13.6
Aquila Life US Equity Index Fund	Blackrock	97,671	19.0
Aquila Life UK Equity Index Fund	Blackrock	69,230	13.6
Life US Index Fund	Blackrock	97,572	19.0
Fixed Interest			
UBS Global Asset Management Corporate Bond Fund	UBS	25,647	19.7
Blackrock Am Uk Corporate Bond Index	Blackrock	26,188	20.1
Aquila Life over 5 yrs Index Fund	Blackrock	27,119	20.8
Barclays Global Aquila Life	Blackrock	26,441	20.3
Others			
Global Commodities and Resources	Investec	37,889	47.2
Cayman Partnership Fund	Harbourvest	12,593	15.7
UK Companies Financing Fund	M&G	12,835	16.0
Cayman Buyout Fund	Harbourvest	8,576	10.7
Cayman Venture Fund	Harbourvest	5,199	6.5

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An analysis of investment movements is set out below:

5. INVESTMENT ANALYSIS	Value at 31/03/2012	Purchases at Cost	Sales Proceeds	Change in Capital Value	Change in Market Value	Value at 31/03/2013
Investments	£000s	£000s	£000s	£000s	£000s	£000s
UK Equities	43,745	12,272	(47,285)	13	(2,884)	5,861
Global Equities	269,466	234,024	(224,112)	(1,127)	(266,752)	11,499
Managed Equities	151,513	51,554	(33,429)	0	340,708	510,346
Property	66,993	8,388	(5,390)	0	(1,197)	68,794
Fixed Interest Securities	88,581	83,801	(76,709)	0	34,487	130,160
Index Linked Securities	49,552	5,271	(7,195)	0	(21,132)	26,496
Other*	98,435	4,597	(24,899)	0	2,157	80,290
Derivatives	(17)	0	0	0	17	0
	768,268	399,907	(419,019)	(1,114)	85,404**	833,446
Cash deposits	6,196					33,502
Other Investment Balances	990					644
	775,454					867,592

* Includes Commodities, Hedge Fund, Venture Capital and Credit Mandates

** Due to the timing of the final valuation of Private Equity and the Financing Fund, adjustments were made to the valuations in the 2011/12 accounts based on information received during June 2013. The effect of these adjustments have been reversed this year through the change in market value as the true valuation has now been reflected in these accounts. The total of these adjustments is £2.191m.

The Pension Fund's bond investments are held with UBS and Blackrock in the form of pooled funds. The fund denoted Index Linked above is comprised wholly of UK Government index linked gilts. The remaining funds are comprised of various government and corporate bonds.

(The amounts in respect of derivative payments and receipts represent the cost at inception of the contract).

Apart from Global Equities and bonds, the only other overseas investments held by the Fund fall under the 'Others' category and are namely Private Equity £31.7m and Commodities £37.88m.

The fund held the following unlisted securities as at 31st March 2013: Equities (including managed equities) £341m, Index Linked Securities £176 and Other Assets £87m.

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The fund held the following listed securities as at 31st March 2013: Equities (including managed equities) £127m, Fixed Interest Securities £26m and Index Linked Securities £10m.

As at 31st March 2012:

5. INVESTMENT ANALYSIS	Value at 31/03/2011	Purchases at Cost	Sales Proceeds	Change in Capital Value	Change in Market Value	Value at 31/03/2012
Investments	£000s	£000s	£000s	£000s	£000s	£000s
UK Equities	38,484	16,947	(9,064)	57	(2,679)	43,745
Global Equities	280,438	122,119	(130,245)	(390)	(2,456)	269,466
Managed Equities	149,430	1,830	0	0	253	151,513
Property	62,831	12,602	(8,785)	(85)	430	66,993
Fixed Interest Securities	82,110	0	(3,855)	0	10,326	88,581
Index Linked Securities	42,516	0	(2,145)	0	9,181	49,552
Other*	93,217	8,496	(2,049)	0	(1,229)	98,435
Derivatives	(46)	0	0	0	29	(17)
	748,980	161,994	(156,143)	(418)	13,855	768,268
Cash deposits	13,332					6,196
Other Investment Balances	556					990
	762,868					775,454

Property Holdings

Year ending 31 March 2012		Year ending 31 March 2013
£000		£000
62,831	Opening balance	66,993
12,602	Additions	8,388
(8,785)	Disposals	(5,390)
430	Net increase in market value	(1,197)
(85)	Other changes in fair value	-
66,993	Closing balance	68,794

There are no restrictions on the realisability of the property or the remittance of income or proceeds on disposal and the fund is not under any contractual obligations to purchase, construct or develop any of these properties. Nor does it have any responsibility for any repairs, maintenance or enhancements.

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FINANCIAL INSTRUMENTS

The accounting policies describe how the different asset classes of financial instruments are measured, and how income and expenses are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category. No financial assets were reclassified during the accounting period. All assets are held at fair value, therefore there is no difference between fair value and carrying value.

31 st March 2012			Financial Assets	31 st March 2013		
Fair Value through Profit and Loss £'000	Loans and Receivables £'000	Financial Liabilities at Amortised Cost £'000		Fair Value through Profit and Loss £'000	Loans and Receivables £'000	Financial Liabilities at Amortised Cost £'000
313,211			Equities	17,360		
			Managed Funds:			
66,993			Property	68,794		
151,513			Equity	510,346		
88,581			Fixed Interest	130,160		
49,552			Index Linked	26,496		
98,435			Other Assets	80,290		
4			Derivative contracts	49,199		
	6,196		Cash deposits		33,502	
	1,680		Pending Trades		3,285	
	484		Dividends & Income		538	
	765		Contributions Due		538	
	3,518		Cash Balances		1,144	
768,289	12,643		Total Financial Assets	888,506	38,955	
			Financial Liabilities			
(21)			Derivative Contracts	(49,199)		
		(1,174)	Pending Trades			(3,127)
		(290)	Unpaid benefits			(584)
		(1,983)	Other current Liabilities			(1,193)
(21)	0	(3,447)	Total Financial Liabilities	(49,199)	0	(4,904)
768,268	12,643	(3,447)	Net Financial Assets	839,307	39,007	(4,904)

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Net Gains and Losses on Financial Instruments

The following table shows net gains on financial instruments:

31 March 2012		31 March 2013
£'000	Financial Assets	£'000
13,263	Fair Value through Profit and Loss	85,404
0	Loans and Receivables	
	Financial Liabilities	
(21)	Fair Value through Profit and Loss	0
13,242	Total	85,404

The fund also received bank interest totalling £8,050 during the year.

Valuation of Financial Instruments carried at Fair Value

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Level 1 consists of assets where the fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities e.g. quoted equities.

Level 2 consists of assets where quoted market prices are not available e.g. where an instrument is traded in a market that is not considered to be active.

Level 3 consists of assets where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Values as at 31 st March 2013	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total
	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	66,559	784,431	31,654	882,644
Loans and Receivables	39,008			39,008
Total Financial Assets	105,567	784,431	31,654	921,652
Financial Liabilities				
Fair Value through Profit and Loss	(49,199)			(49,199)
Financial Liabilities at Amortised Cost	(4,904)			(4,904)
Total Financial Liabilities	(54,103)	0	0	(54,103)
Net Financial Assets	51,334	784,431	31,654	867,549

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Values as at 31 st March 2012	Quoted Market Price Level 1 £'000	Using Observable Inputs Level 2 £'000	With Significant Unobservable Inputs Level 3 £'000	Total £'000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	313,215	426,388	28,686	768,289
Loans and Receivables	12,643			12,643
Total Financial Assets	325,858	426,388	28,686	780,932
Financial Liabilities				
Fair Value through Profit and Loss	(21)			(21)
Financial Liabilities at Amortised Cost	(3,447)			(3,447)
Total Financial Liabilities	(3,468)	0	0	(3,468)
Net Financial Assets	322,390	426,388	28,686	777,464

FINANCIAL RISK MANAGEMENT

As an investment fund, the Lewisham Pension Fund's objective is to generate positive investment returns for a given level of risk. Therefore the Fund holds financial instruments such as securities (equities, bonds), collective investment schemes (pooled funds), and cash equivalents. In addition, debtors and creditors arise as a result of its operations. The value of these financial instruments is reflected in the financial statements at their fair value.

Responsibility for the fund's risk management strategy rests with the Pension Fund Investment Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pension operations. Policies are reviewed regularly to reflect change in activity and in market conditions.

The main risks from the Fund's holding of financial instruments are market risk, credit risk and liquidity risk.

Market risk includes price risk, interest rate risk and currency risk. The Fund's investments are managed on behalf of the Fund by the appointed investment managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines or pooled fund prospectus.

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Due to the performance of some managers, the Lewisham Pension Investment Committee (PIC) decided to move the fund towards a more passive rather than active management. This has been reflected in this statement of accounts.

The Committee has determined that the new investment management structure is appropriate and is in accordance with its revised investment strategy. The Committee, however, regularly monitors each investment manager, and its investment consultant (Hymans Robertson) advises on the nature of the investments made and associated risks.

The Fund's investments are held by Northern Trust, who act as custodian on behalf of the Fund. As the Fund adopts a long term investment strategy, the high level risks described below will not alter significantly during any one year unless there are significant strategic or tactical changes to the portfolio.

i) Market Risk

Market risk represents the risk that fair value of a financial instrument will fluctuate because of changes in market prices, interest rates or currencies. The Fund is exposed, through its investments in equities, bonds and investment funds, to all these market risks. The aim of the investment strategy is to manage and control market risk within acceptable parameters while optimising the return from the investment portfolio. In general, market risk is managed through the diversification of the investments held by asset class, investment mandate guidelines and investment managers. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the PIC.

a) Market Price Risk

Market price risk represents the risk that the value of a financial instrument will fluctuate as a result of factors other than interest rate or foreign currency movements, whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting the market in general. Market price risk arises from uncertainty about the future value of the financial instruments that the Fund holds. All investments present a risk of loss of capital, the maximum risk being determined by the fair value of the financial instruments. The investment managers mitigate this risk through diversification in line with their own investment strategies and mandate guidelines. The Council and its investment advisors also undertake appropriate monitoring of market conditions and benchmark analysis. The Fund has a long term view on expected investment returns which smoothes out short term price volatility.

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's advisors, the council has determined that the following movements in market price risk are reasonably possible for the 2012/13 reporting period.

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Asset Type	Potential Market Movement +/- (%p.a.)
UK Equities	13.3
Overseas Equities	13.2
UK Bonds	6.5
Index Linked	8.6
Cash	0.0
Other Assets	6.5
Property	1.9

The potential volatilities are broadly consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This can then be applied to the period end asset mix as follows:

Asset Type	Final Market Value £'000	Percentage Change	Value on Increase £'000	Value on Decrease £'000
UK Equities	302,959	13.3	343,162	262,756
Overseas Equities	224,747	13.2	254,414	195,080
UK Bonds	130,160	6.5	138,555	121,765
Index Linked	26,496	8.6	28,761	24,231
Cash	33,502	0.0	33,509	33,495
Other Assets	80,290	6.5	85,501	75,079
Property	68,794	1.9	70,122	67,466
Total Assets*	866,948	8.0	936,130	797,766

* This figure excludes derivatives and other investment balances.

b) Interest Rate Risk is the risk to which the Pension Fund is exposed to changes in interest rates and relates to its holdings in bonds and cash. Based on interest received on bonds held on a segregated basis and cash held by investment managers, a 0.5% change in interest rates would result in an approximate change in income of £677k.

c) Currency Risk is the risk to which the Pension Fund is exposed to fluctuations in foreign currency exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£UK). The fund's currency rate risk is routinely monitored by the council and its investment advisors. In practice, this is achieved by the use of futures and forward foreign exchange contracts, which entitle and oblige the seller and holder to exchange assets or currency on a future date at a predetermined price or rate. The former are tradable on exchanges, the latter are "over the counter" agreements, which neither the purchaser or the seller may transfer. As at 31 March 2013, forward foreign exchange contracts were the only derivative contracts held. There is no cost on entering into these contracts but the market value is established as the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date.

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Following analysis of historical data in consultation with the Fund's advisors, the council considers the likely volatility associated with foreign exchange rate movements to be 6.2%.

This volatility is applied to the fund's overseas assets as follows:

Asset Type	Asset Value @ 31/12/12 £'000	+6.2% £'000	-6.2% £'000
Overseas Equities	224,747	238,704	210,790
Other Assets	51,835	55,054	48,616
Other Alternatives	67,456	71,645	63,267
Total	344,038	365,404	322,672

ii) Credit Risk Credit risk represents the risk that the counterparty to a financial instrument will fail to meet an obligation and cause the Fund to incur a financial loss. This is often referred to as counterparty risk. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities. The Fund is exposed to credit risk through its underlying investments (including cash balances) and the transactions it undertakes to manage its investments. The careful selection of and monitoring of counterparties including brokers, custodian and investment managers minimises credit risk that may occur through the failure to settle transactions in a timely manner. The Fund is also exposed to credit risk through Securities Lending. The Securities Lending (SL) programme is run by the Fund's custodian, Northern Trust, who assign four different risk management oversight committees to control counterparty risk, collateral risk and the overall securities lending programme. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending on the type of transaction. To further mitigate risks, the collateral held on behalf of the Pension Fund is ring fenced from Northern Trust. Securities lending is capped by investment regulations and statutory limits are in place to ensure no more than 25% of eligible assets can be on loan at any one time. The Fund's exposure through the securities Lending programme is now reduced as the fund is now passively managed and SL activity has greatly reduced. The Financing Fund is also exposed to credit risk. The fund gains exposure by investing in private placements. This risk is managed by assigning a credit analyst to all investments, who continually monitors the asset, its direct peers and its sector.

iii) Liquidity Risk – This is the risk that the Pension Fund will have difficulties in paying its financial obligations as they fall due, for example the pensioner payroll costs and capital commitments. The council therefore takes steps to ensure that it has adequate cash resources to meet its commitments. The fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2013 these assets totalled approximately £684m, with a further £33.5m held in cash by the custodian on behalf of the Fund and fund managers.

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Pension Fund Accounts

6. INVESTMENT MANAGEMENT FEES

	2012/13 £000s	2011/12 £000s
Fund Managers' Fees	1,387	3,045
Custodian Fees*	227	0**
Advisory Costs	63	0**
	1,677	3,045

*These fees include the cost of transition management

**These costs were classed as administration costs in 2011/12 (see note 3)

7. PRIOR YEAR ADJUSTMENT

No prior year adjustments have been made to these accounts.

8. DERIVATIVE CONTRACTS

As at 31 March 2013, forward foreign exchange contracts were the only derivative contracts held. Forward foreign exchange contracts are disclosed in the accounts at market value which is the gain or loss that would arise from closing out the contract at the balance sheet date by entering into an equal and opposite contract at that date.

	31st March 2013	31st March 2012
Foreign Exchange Gains		
Total Gains	0	4
Foreign Exchange Losses		
Total Losses	0	(21)
Total Unrealised Gains/(Losses)	0	(17)

9. DEBTORS & CREDITORS

These comprise the following amounts:

Debtors	2012/13 £000s	2011/12 £000s
Contributions due from Admitted / Scheduled Bodies	538	765
Equity Dividends / Income from Managed Funds	711	484
Interest and Other Income	390	0
VAT	52	0
Pending Trades	2,670	1,680
	4,361	2,929

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LEWISHAM STATEMENT OF ACCOUNTS 2012/13

Pension Fund Accounts		
Creditors	2012/13 £000s	2011/12 £000s
Fund Manager and Custody Fees	(171)	(516)
Consultancy / Advisory Fees (Inc Audit Fee)	(94)	(27)
Pension Payments Due to Employees	(586)	(289)
Taxes Due	0	0
Pending Trades	(3,127)	(1,174)
LB Lewisham	(926)	(1,441)
	(4,904)	(3,447)

The pending trades relate to purchases and sales by managers which have yet to be the subject of cash settlement. Pending trade sales and purchases at the year end are treated as investment debtors and creditors.

10. CASH DEPOSITS

The Northern Trust Company is the fund's global custodian and the cash is held in an interest bearing account to meet the cash flow requirements of the fund and its managers. Part of the cash held this year was in relation to the closure of the Hedge Fund of Funds with Fauchier Partners. The total cash held as at 31st March 2013 was £33.5m (£6.19m as at 31st March 2012). Approximately £20m of the cash held was from the closure of the Fauchier Partners investment during the year. Suitable reinvestment of these funds is currently being considered. £7m of the cash is being held to meet the ongoing cashflow requirements of the fund, £4m is the residual cash from the transition and £2m is held for Schroders.

Cash in Hand

The Lewisham cash balance represents uninvested cash held in the Pension Fund bank account as at 31st March 2013. The cash in hand figure includes a figure of £926K to be paid by the Fund to the Council for items described in note 13a below.

11. TRANSACTION COSTS

The following direct costs were incurred in relation to individual investment transactions:

	2012/13 £000s	2011/12 £000s
Total Purchases	261	199
Total Sales	148	144
Total transactions	409	343

12. POST YEAR END EVENTS

There have been no events since March 2013, and up to the date when these accounts were prepared, that require any adjustment to these accounts.

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13. COMMITMENTS

The Pension Fund was committed to the following capital contributions as at the 31st March 2013

Harbourvest

Fund	Amount	Translated £
Harbourvest Partners VIII – Cayman Venture Fund L.P	\$1,852,500	1,224,317
Harbourvest Partners VIII – Cayman Buyout Fund L.P	\$4,995,000	3,301,195
Harbourvest International Private Equity Partners V – Cayman Partnership Fund L.P	€2,362,500	1,991,115
Harbourvest International Private Equity Partners V – Cayman Direct Fund L.P	€180,000	151,704
Total		6,668,331

(The Harbourvest commitments have been translated from either Euros or Dollars using exchange rates as at 31st March 2013). Total Harbourvest commitments as at 31st March 2012 were £8,909,007.

14. RELATED PARTY TRANSACTIONS

There have been no material transactions with related parties in the financial year. There were no provisions for doubtful debt and amounts written off in the period.

Eight Councillors sit on the Pensions Investment Committee which oversees the Fund. Four Councillors of this Committee are members of the pension scheme. At each meeting of the Pensions Investment Committee, Councillors are asked to make declarations of interest which are minuted at the meeting.

During the year the following declarations were made:

- Cllr Maslin declared an interest in UBS. He is a Director of Hales Gallery of which UBS is an occasional customer. Cllr Maslin has not taken part in any of the decisions taken during the year involving UBS.
- Councillor Fletcher declared that her brother in law had recently been employed as a finance director for Bryden International which is part of the Melrose Group.
- Councillor Muldoon declared a personal interest in the February 2013 meeting, as a friend of Sir Paul Judge, the Chair of Schroder Income Growth Fund plc.

No other trustees or Council chief officers with direct responsibility for pension fund issues have undertaken any declarable transactions with the Pension Fund.

The Council, the administering body, had dealings with the Fund as follows:

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- a) Recharges from the Council for the in-house administration costs and other expenses, such as interest payable on balances, borne by the scheme were transacted for £606k (see note 3). (Some cash transactions relating to pension activities are currently effected through the Council's bank account and consequently pension fund cash balances are held by the Council from time to time and vice versa.)
- b) The salary of the Executive Director for Resources and Regeneration has been disclosed in the Council's full set of accounts.

15. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Contributing members have the right to make additional voluntary contributions (AVCs) to enhance their pension. There are currently 48 'open' AVC contracts for LGPS members (i.e. excluding members with AVC contracts who have left Lewisham and now have preserved benefits). Some of these 'open contracts' will be for members who have paid AVCs in the past but who have suspended payments to the scheme for the time being.

The fund has two AVC providers: Clerical Medical and Equitable Life. The value of AVC investments is shown below, the contributions are held by the providers and do not form part of the Lewisham fund's assets in accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

	Total	Equitable	Clerical
	£000s	£000s	Medical
			£000s
2012/3			
Value at 1 April 2012	1,519	535	984
Contributions and Transfers Received	203	4	199
Investment Return	85.5	0.5	85
Paid Out	(312)	(12)	(300)
Value at 31 March 2013	1,495.5	527.5	968

	Total	Equitable	Clerical
	£000s	£000s	Medical
			£000s
2011/12			
Value at 1 April 2011	1,441	535	906
Contributions and Transfers Received	248	5	243
Investment Return	52	20	32
Paid Out	(222)	(25)	(197)
Value at 31 March 2012	1,519	535	984

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16. SCHEDULED BODIES

The following are scheduled bodies to the fund as at 31st March 2013:

Christ The King Sixth Form College
Haberdashers' Aske's Knights Academy
Lewisham Homes
St Matthew Academy
Tidemill Academy

17. ADMITTED BODIES

The following are admitted bodies to the fund as at 31st March 2013:

National Car Parks Ltd
Excalibur Tenant Management Project
PLUS
Housing 21
Lewisham Nexus Services
Lewisham Way Youth and Community
Centre
SAGE Educational Trust
CIS Securities
Wide Horizons
Phoenix
INSPACE
T Brown & Sons
Quality Heating
Blenheim CDP
RSM Tenon formerly RSM Bentley
Jennison
Broomleigh Housing Association
Penrose
Skanska
One Housing
Fusions Leisure Management
3 C's Support
Children's Society
Pre-School Learning Alliance
Chequers Contract Services

18. STOCK LENDING

The Statement of Investment Principles permits the Fund to enter into stock lending (whereby the Fund lends other bodies stocks in return for a fee and collateral whilst on loan). Equities and fixed income assets held in segregated accounts in custody may be lent. The Fund actively lends in 50 different equity and fixed income markets worldwide. Northern Trust conducts this activity on behalf of the Fund.

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The economic benefits of ownership are retained when securities are on loan. The Fund has its full entitlements at all times to any income due, or rights on its securities on the anticipated date of the entitlement, so that no economic benefits are foregone as a result of securities lending activity.

Northern Trust pays income to the Fund on a contractual basis (i.e. pay date) for contractual income markets. For non-contractual income markets, Northern Trust pays income to the Fund once income is received from the local sub custodian. Therefore, income is paid at the same time as income is paid for in-custody positions. Northern Trust is responsible for collecting dividend and interest income on loaned securities from borrowers. The right to vote moves with the securities.

There was a large reduction in stock lending activity towards the end of the year due to the fund restructure and move to passive investments, as the fund is unable to lend units in pooled funds.

As at the 31st March 2013, the value of aggregate stock on loan was £0.98m (£25.5m as at 31st March 2012). These have been carried in the accounts at this value. There are no liabilities associated with these assets.

Collateral

The collateral held versus securities on loan cannot be sold or repledged in absence of default by the borrower.

The council entered into stock lending transactions during the financial year earning £89k net of direct expenses (£0.10m as at 31st March 2012). The value of collateral held was £1.064m (£27.2m as at 31st March 2012).

19. MEMBERSHIP

	Active Members 2012/13	Active Members 2011/12	Deferred Benefits 2012/13	Deferred Benefits 2011/12	Retired Former Members 2012/13	Retired Former Members 2011/12
Admin. Authority	5,322	5,035	7,284	6,958	6,530	6,448
Scheduled Bodies	655	666	303	243	127	106
Admitted Bodies	180	162	92	66	43	39
Totals	6,157	5,863	7,679	7,267	6,700	6,593

20. These accounts were authorised on the xxxxx by the Executive Director for Resources and Regeneration.